

# USAID

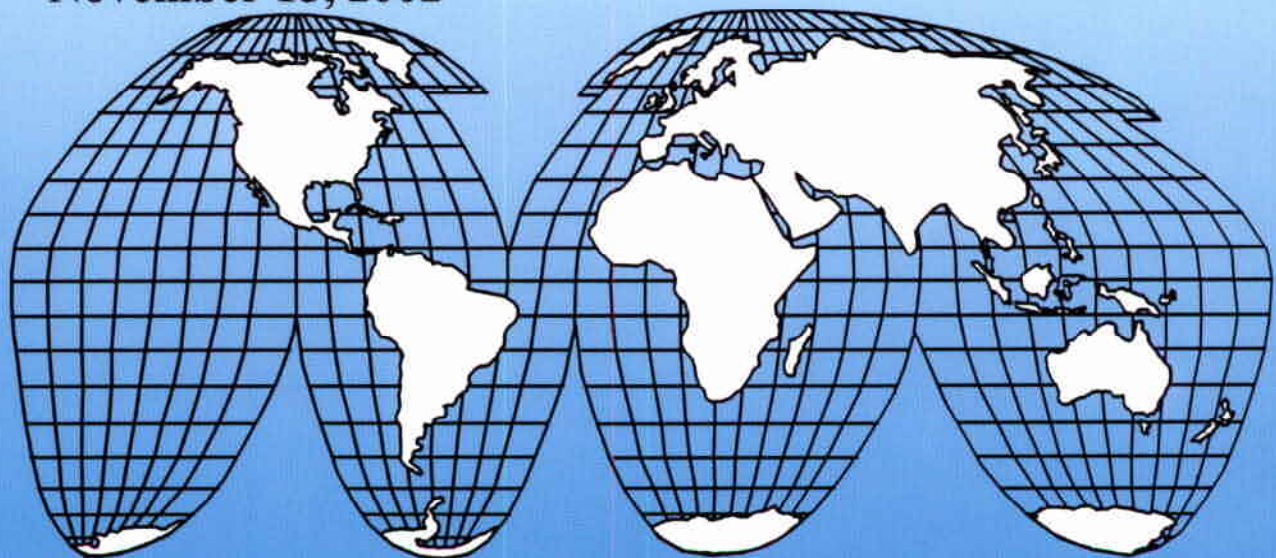
## OFFICE OF INSPECTOR GENERAL

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**Agreed Upon Procedures Review of  
USAID/Mozambique's Resources Managed by  
Grinaker/LTA under the Increased Rural Incomes  
Program for the Period June 26, 2001 to May 31, 2002**

**Audit Report No. 4-656-03-001-N**

**November 15, 2002**



**PRETORIA, SOUTH AFRICA**

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Financial information contained in this report may be privileged. The restriction of 18 USC 1905 should be considered before any information is released to the public.

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Regional Inspector General  
Pretoria, South Africa

November 15, 2002

MEMORANDUM FOR MISSION DIRECTOR, USAID/MOZAMBIQUE, Jay L. Knott

FROM: Regional Inspector General/Pretoria, Jay Rollins

A handwritten signature in blue ink, appearing to read "J. Rollins".

SUBJECT: Agreed Upon Procedures Review of USAID/Mozambique's resources managed by Grinaker/LTA under the Increased Rural Incomes Program for the period June 26, 2001 to May 31, 2002 (Report No. 4-656-03-001-N).

This memorandum transmits the agreed upon procedures review prepared by the Agency-contracted auditor, Ernst & Young, Maputo, Mozambique.

The review was performed in accordance with the "Guidelines for Financial Audits Contracted by foreign Recipients" issued by the Office of the Inspector General.

The specific project components are road design and construction and bridge rehabilitation. Grinaker/LTA, a South African for-profit contractor, was selected through a full and open procurement to provide the construction services. A host country contract for US \$9,740,830 plus value added tax (VAT) was signed between *Administração Nacional de Estradas* and Grinaker/LTA. USAID's contribution will be US \$9,156,380, 94 percent of the contract, excluding VAT. The commencement date was June 26, 2001 and the expected duration is 14 months plus extensions due to rain. Ernst & Young reviewed \$3,363,443 in USAID funds.

The scope of Ernst & Young's review was limited to:

- a review of the payment process (along with the time taken for payment of vouchers);
- a review of the certificates submitted for payment to ensure that they were paid in accordance with the terms of the contract;
- a review of the Mission's internal control over the payment process.

The review disclosed the following:

- **Contrary to the contract terms**, payments have been processed based on certificates issued by the resident engineer. Grinaker/LTA has not issued any original invoices for the project.

- Payments were made to Grinaker/LTA's South African bank account, without the withholding of Mozambique's 15 percent withholding tax, to which foreign entities carrying out services in Mozambique are subject.

Grinaker/LTA responded that VAT invoices are now being generated by the respective contracts, and that the firm qualifies not to have the 15 percent withholding tax deducted.

Given the concerns raised in the review report about controls over the payment process, we are making the following recommendation:

**Recommendation No. 1: We recommend that USAID/Mozambique ensure that Grinaker/LTA corrects the two internal control findings (generation of VAT invoices and appropriate handling of Mozambican withholding tax) identified on pages 6 through 7 of the report.**

Please respond within 30 days describing the actions taken or planned by USAID/Mozambique to address this recommendation.

Attachments: a/s

**LIMITED SCOPE AUDIT OF THE USAID FUNDS  
GRANTED TO  
(ER:BASE) IRIP POST EMERGENCY PROJECT  
MANAGED BY GRINAKER/LTA  
FOR THE PERIOD FROM**

*JUNE 26, 2001 TO MAY 31, 2002*

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP  
POST EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
FOR THE PERIOD FROM JUNE 26, 2001 TO MAY 31, 2002**

**TABLE OF CONTENTS**

**PAGES**

**TRANSMITTAL LETTER AND SUMMARY**

1	Background	1 - 2
2	Scope and methodology	3
3	<b>INTERNAL CONTROL STRUCTURE</b>	
3.1	Independent limited scope auditor's report	4 - 5
3.2	Findings and recommendations	6 - 7

**APPENDIX A**

	Management Letter	1 - 2
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## TRANSMITTAL LETTER AND SUMMARY

*The Director  
United States Agency for International Development  
Mission to Mozambique  
Av. Damião de Góis, 165  
Maputo, Moçambique*

Dear Sir or Madam

Limited scope audit of USAID Resources Managed by Grinaker/LTA  
Contract No. 656-00251.00

We have completed our limited scope audit of the above grant for the period *June 26, 2001 to May 31, 2002* and report as follows:

### 1 Background

On 18 August 2000, the U. S. Agency for International Development (USAID), mission to Mozambique (the Mission) signed Amendment No. 2 for the Increased Rural Incomes Program (IRIP) Strategic Objective Agreement (SOAG). This amendment obligated \$18.5 million of emergency supplemental IDA funds to respond to the Government of Mozambique's (GRM) Post-Flood Emergency Program Appeal. On 29 September 2000, the Mission approved the Emergency Roads: Building and Support Effort (ER: BASE), under USAID Project Number 656-0251.00, entitled IRIP Post Emergency Project, (the project). This provided \$34.0 million in grant funds to the GRM for specific road construction/ rehabilitation projects and authorized an initial \$1.0 million for the design work. On 8 December, 2000, the Mission signed Amendment No. 4 for the IRIP SOAG, obligating another \$58.5 million of emergency supplemental IDA funds for an expanded response to the GRM's Post-Flood Emergency Reconstruction Program. When the additional funds became available for flood reconstruction activities, the Mission decided to provide an additional \$1.0 million to ER: BASE. \$980,000 was allocated to the contingency line item and Project Management Services was increased by \$20,000 to cover higher than originally expected costs. The principal budget items became as follows (as per Amendment No.1 to the ER: BASE P/AAD signed 15 December 2000):

Task	Amount
Design and Construction Management Services	\$ 3,572,108
Repair and Reconstruction Services	\$30,917,892
Project Management Services	\$ 510,000
TOTAL	\$35,000,000



The specific project components are:

- Inchope-Gorongosa Road design and construction;
- Limpopo Valley Roads design and construction; and
- Nova Mambone and Save Bridge rehabilitation.

Grinaker/LTA, a South African for-profit contractor, was selected through a full and open procurement process to provide the construction services for the Nova Mambone and the Save Bridge Rehabilitation project comprising:

- the rehabilitation and construction of the EN 211 road between the EN 1 road and Nova Mambone, and
- the rehabilitation of the suspension bridge across the Save River.

A Host Country Contract for US\$ 9,740,830 plus VAT was signed between Administração Nacional de Estradas (ANE) and Grinaker/LTA. USAID will pay US\$ 9,156,380, equivalent to 94% of the contract value, excluding VAT. ANE will pay the remaining 6% of the value of the contract and the total amount of VAT. The commencement date was June 26, 2001 and the expected duration is 14 months plus extensions due to rain.

The certificates issued up to May 31, 2002 are as follows:

Certificate #	Voucher dated up to	USAID Approval date	Amount Certified (USD) Including IVA	Amount Certified (USD) Excluding IVA	USAID 94% (USD)	ANE 6% (USD)	IVA (USD)
Mobilization	September 17, 2001	October 30, 2001	\$2.279.354	\$1.948.166	\$1.831.276	\$116.890	\$331.188
1	September 30, 2001	November 29, 2001	\$391.718	\$334.802	\$314.714	\$20.088	\$56.916
2	December 18, 2002	January 23, 2001	\$511.464	\$437.149	\$406.888	\$25.971	\$78.605
3	January 25, 2002	March 14, 2002	\$321.824	\$275.063	\$262.592	\$16.761	\$42.470
4	February 28, 2002	April 12, 2002	\$187.575	\$160.321	\$150.701	\$9.619	\$27.254
5	March 25, 2002	May 17, 2002	\$494.476	\$422.629	\$397.272	\$25.358	\$71.847
			\$4.186.411	\$3.578.129	\$3.363.443	\$214.687	\$608.280

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
FOR THE PERIOD FROM JUNE 26, 2001 TO MAY 31, 2002  
United States Agency for International Development (USAID)**

**2. *Scope and methodology***

In accordance with the e mail communication received dated March 27, 2002, the scope of our audit work has be limited to:

1. An audit of the payment process (along with the time taken for payment of vouchers);
2. An audit of the certificates submitted for payment to ensure that they were paid in accordance with the terms of the contract and
3. An audit of the Mission's internal control over the payment process.

***Our methodology was as follows:***

- Held an entrance conference with recipient on March 27, 2002.
- Obtained copies of certificates issued for payment along with all supporting documents.
- Contacted ANE to obtain copy of contract and discuss general payment procedures.
- Documented the payment process after discussions with ANE and USAID staff.
- Obtained an understanding of the Mission's internal control procedures.
- Verified evidence of compliance to internal control procedures in payment process.
- Discussed invoicing and time taken for payment of vouchers with Grinaker/LTA.
- Tested the certificate amounts for compliance with the contract provisions. This included testing portions payable by USAID and ANE along with Value Added Tax (IVA) payable per certificate.
- Tested for compliance with Mission Internal control procedures from documents made available by USAID. This included verifying that documents submitted for approval contained all signatures required in terms of internal control procedures.



**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
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United States Agency for International Development (USAID)**

**3. INTERNAL CONTROL STRUCTURE**

**3.1 Independent Auditor's Report on Internal Controls Structure**

**To the Project Management**

**(ER:BASE) IRIP Post Emergency Project managed by Grinaker/LTA**

**Maputo**

**Mozambique**

In accordance with the terms of reference we have performed the following for (ER:BASE) IRIP Post Emergency Project managed by Grinaker/LTA for the period June 26, 2001 to May 31, 2002:

1. An audit of the payment process (along with the time taken for payment of vouchers);
2. An audit of the certificates submitted for payment to ensure that they were paid in accordance with the terms of the contract and
3. An audit of the Mission's internal control over the payment process.

The management of (ER:BASE) IRIP Post Emergency Project managed by Grinaker/LTA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures.

The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements.

LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
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United States Agency for International Development (USAID)

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We noted no matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Public Accountants (AICPA). Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the recipient's ability to record, process, summarize, and report financial data consistent with the assertions of management in respect of the matters set out in our terms of reference above.

However, we noted certain matters involving the internal control structure and its operation that we have reported below under point 3.2 as findings to the management of Grinaker/LTA.

Other minor issues have been raised in our management letter under Appendix A.

This report is intended for the information of (ER:BASE) IRIP Post Emergency Project managed by Grinaker/LTA and the U.S. Agency for International Development (USAID). However, upon release by USAID, this report is a matter of public record and its distribution is not limited.

Maputo, July 19, 2002

  
ERNST & YOUNG  
MOZAMBIQUE

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
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United States Agency for International Development (USAID)**

**3.2 Findings**

**3.2.1 Introduction**

The control environment reflects the overall attitude, awareness and actions of management. The accounting system consists of methods and records established to identify, assemble, analyze, classify, record and report transactions. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to safeguard the organization's resources.

Our review of the internal control structure was directed towards those significant policies and procedures, which relate to the nature of project funding arrangements.

**3.2.2 Findings and recommendations**

**Finding No. 1– Original Invoices**

Payments have been processed based on certificates issued by the resident engineer. Grinaker/LTA has not issued any original invoices for the project. This is contrary to sub clause 60.7 paragraph (c) of the contract signed between USAID, ANE and Grinaker/LTA, which requires one copy of the Contractors invoice to accompany the interim statements. Furthermore, this has several legal and fiscal implications both for ANE and Grinaker /LTA.

**Recommendation No. 1**

Each certificate issued should be followed by an original VAT invoice as set out in sub clause 60.7 paragraph (c) of the contract signed between USAID, ANE and Grinaker/LTA. VAT invoices are required by law and act as the mechanism for charging IVA. These invoices should be issued and sent to ANE and USAID for record purposes.

**Management Comments No. 1**

VAT invoices are now being generated by the respective contracts. These will be original tax invoices together with registered VAT numbers and addresses.

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
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**Finding No. 2- Payments made outside Mozambique**

We noted that all payments in foreign currency are being paid to a South African bank account. Foreign entities carrying out services in Mozambique are subject to a withholding tax of 15%. The entity being paid was indicated as Grinaker/LTA Limited based in Kempton Park. The fiscal authorities may see this as an unregistered foreign legal entity for which no withholding taxes have been withheld. ANE could face penalties if they have not complied with the fiscal regulations.

**Recommendation No. 2**

The legal entity performing the services should issue the invoices for the work performed.

If the invoice is issued by a foreign entity, ANE should instruct USAID to withhold 15% of the payment which should then be paid over to the fiscal authorities on behalf of the foreign entity.

**Management Comments No. 2**

The contract was awarded to Grinaker-LTA Limited. However in order to execute the specified construction works LTA Mozambique Limitada has been used as a mechanism to comply with Mozambique statutory requirements.

LTA Mozambique Limitada, which is a wholly owned subsidiary of Grinaker-LTA Limited, is the registered trading entity in Mozambique  
LTA Mozambique Limitada is invoicing the client and therefore qualifies not to have 15% Withholding Tax deducted.

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
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***APPENDIX A***

***MANAGEMENT LETTER***

The limited scope audit was conducted in accordance with the guidelines stipulated in the "Guidelines for financial audits contracted by foreign recipients" as issued by the office of the Inspector General. The following non-material weaknesses were discovered during the performance of our audit procedures.

**Weakness No. 1 - Legal Status of Grinaker/LTA**

The Mozambican entity acting as the contractor is LTA Moçambique Limitada trading as Grinaker/LTA. There is another legal entity in Mozambique namely Grinaker Moçambique Limitada also trading under the Grinaker/LTA name. Although both companies are both related to the same group of holding companies, they are different legal entities. Contract references are made to Grinaker/LTA but in fact, the contract is with LTA Mozambique, Lda. Grinaker/LTA is not a legal entity in Mozambique.

**Recommendation No. 1**

The legal entity providing the services should be specified clearly in the contract. In this case, as the contract was awarded to Grinaker/LTA in South Africa, they should have informed USAID and ANE of their intention to use LTA Moçambique Limitada as local contractor to perform the work. This will prevent confusion as to who is responsible for the work.

**Management Comments No. 1**

Grinaker Construction Limited and LTA Limited, both South African registered companies merged during November 2000.

During this merger period all tenders were submitted in the name of Grinaker-LTA Ltd.

All future contracts will be conducted through one legal entity.

This recommendation will need to be actioned accordingly and the Group will be notified to put in place a merger of the two registered companies.

**Weakness No. 2 - Long delays experienced in receiving funds from ANE**

ANE is obliged to pay 6% of the each certificate issued. Currently, the contractor has only received payment for Certificates 1 and 2. Payment for certificates 3 to 5 are still outstanding.

Currently the contractor is obliged to charge IVA (Value Added Tax) on certified amounts and pay this amount over to the fiscal authorities. There is a three month delay in getting IVA credit promissory notes back from the State authorities allowing the contractor to set this off against future IVA payable amounts. This is causing cash flow difficulties for the contractor.

**LIMITED SCOPE AUDIT OF THE USAID FUNDS GRANTED TO (ER:BASE) IRIP POST  
EMERGENCY PROJECT MANAGED BY GRINAKER/LTA  
FOR THE PERIOD FROM JUNE 26, 2001 TO MAY 31, 2002  
United States Agency for International Development (USAID)**

**APPENDIX A**

**MANAGEMENT LETTER**

**Recommendation No. 2**

ANE who is responsible for the 6% and IVA portions should attempt to speed up the process in getting these amounts paid to the contractor. USAID payments have all been made within the contractor deadlines.

**Management Comments No. 2**

Meetings held with E&Y and Revenue on Monday, 9 September 2002, stress the concerns in respect of IVA being deducted from certificate values by ANE as well as slow payment. Revenue have acknowledged this is a serious problem, but were not prepared to give a definite recommendation for the problem.

**Weakness No. 3– Calculation of Vat Payable**

Although corrected subsequently, the amount reflected as IVA payable was incorrectly reflected on certificate 2 and 3 by an under and over statement USD 4,290 respectively. This indicates that the formulae used to calculate IVA could be incorrect. This could have an impact on the IVA returns submitted for tax purposes by the contractor.

**Recommendation No. 3**

Certificates issued by the resident engineer should be checked for mathematical accuracy prior to being submitted for payment.

**Management Comments No. 3**

Agreed.



